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ECONOMIC INTELLIGENCE WEEKLY

28 May 1975

Overview

Guidelines For A Coordinated Policy On Raw Materials and establishment of a high-level group to develop formal proposals will be thrashed out by OECD ministers this week. Although policy reviews by many of the OECD countries are incomplete, most accept the need to negotiate with the developing states. The ministers are expected to renew their pledge to avoid beggar-thy-neighbor trade policies. They will also call for "constructive dialogue" with LDCs on such topics as world food supplies, international commodity policies, and LDC access to the markets of developed countries. The LDCs, sparked by the Algerians, are busy doing their homework for upcoming meetings of the UNCTAD Committee on Commodities and the Seventh Special Session of the UN General Assembly this September.

International Monetary Adjustments last week featured a decline in the dollar against the major European currencies, reflecting expectations of further reductions in US interest rates. The French franc was strengthened largely by Paris' decision to reenter the European joint currency float. The weakness of the dollar probably was responsible for the jump in the London price of gold by $7.65.

The Real Money Supply Has Begun To Expand In Most Industrial Countries
25X6 after falling rapidly last year. [redacted] 25X6

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Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7892.

OPEC Country Surpluses Are Down. For the first quarter of 1975 the investable surplus is estimated at $13 billion, several billion dollars below the third quarter peak of 1974. We expect a surplus for the full year of $41 billion, or $15 billion less than in 1974. Reduced demand for OPEC oil and the rapid growth in OPEC imports explain the decline. (Secret No Foreign Dissem)

NORWAY: PETROLEUM POLICY SOFTENED

Oslo has grudgingly endorsed a faster pace of petroleum development to keep up with British activity in the North Sea. Norway wants to obtain a fair share of the oil and gas being found along the border of the Norwegian and British sectors; this desire has overcome its preference for a slower rate of development, which would prolong self-sufficiency, lessen inflationary pressures, and minimize social and environmental disruption. Norway nonetheless will be producing well below the maximum that recent discoveries could support.

Oslo now seems likely to allow petroleum production to rise from the present 200,000 b/d to 2 million b/d by 1980, including gas equivalent to 500,000 b/d. It initially had hoped to hold output to 1.4 million b/d. Most of the rising output will be exported; current domestic consumption is a mere 160,000 b/d.

Conflicting Pressures

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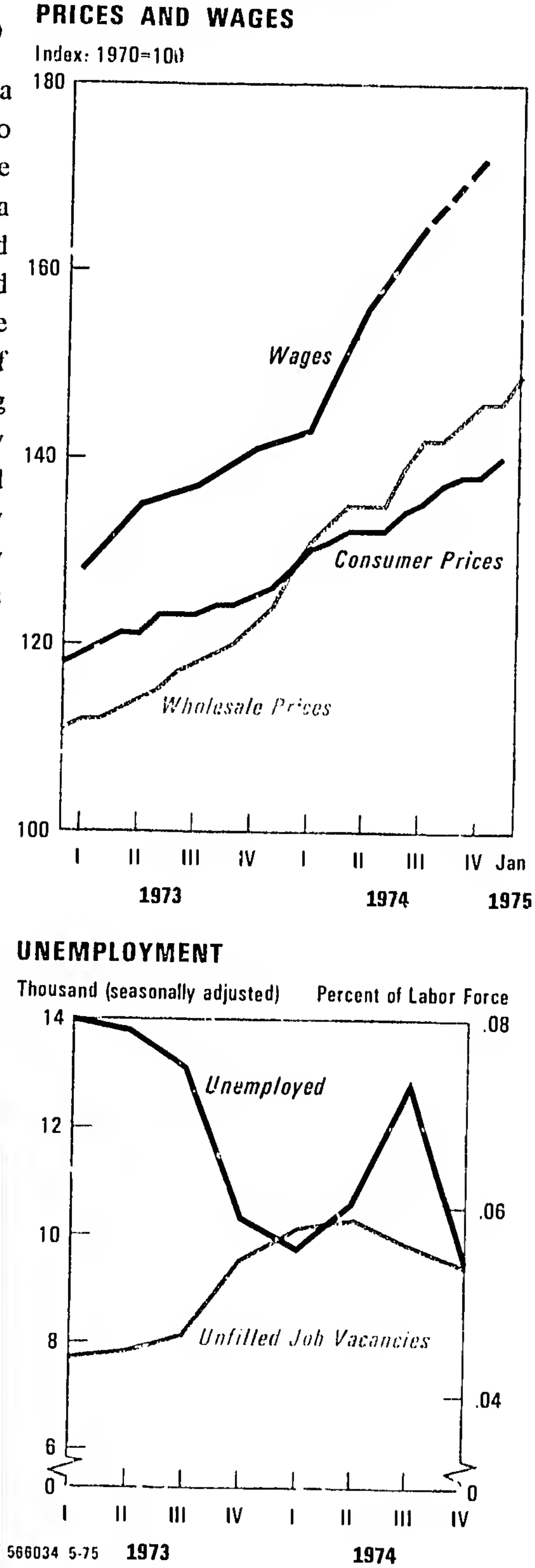
[redacted]

Norway Economic Indicators . . . .



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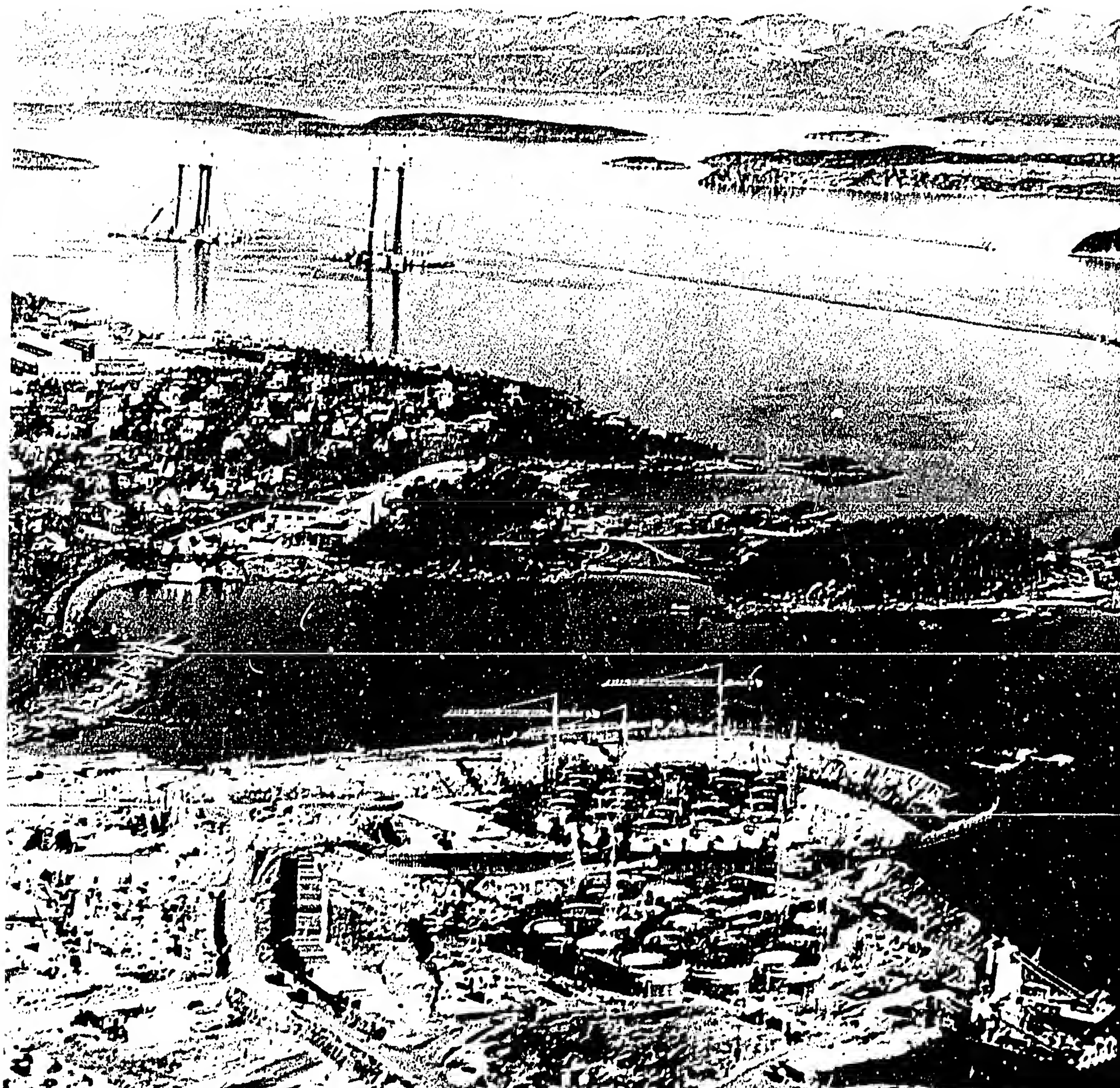
Norwegian oil policy has been little affected by recent weakness in the shipping and shipbuilding sectors, which normally contribute 15% of GNP and one-third of current account receipts. The surge in oil-related capital inflows has prevented appreciable erosion in foreign reserves. Oslo still appears to be more concerned about handling the future bonanza of oil dollars than about financing current import requirements. One effect of the slump in shipping and shipbuilding has been to ease pressure from the oil boom by releasing workers and allowing shipyards to build offshore rigs and tenders.

Opposition to rapid petroleum development remains strong for economic, social, and ecological reasons. The oil boom is blamed for raising the inflation rate from 7% in 1973 to 11% in 1974 – even though other factors clearly have contributed to spiraling prices – and for aggravating a chronic labor shortage. Many people fear that the luring away of people from the traditional occupations of fishing and farming will change Norwegian society for the worse. Environmentalists warn against oil leaks from offshore drilling rigs and pipelines and against air pollution by refineries. They also charge that construction of huge drilling platforms is marring the beauty of some fjords. Nationalists simply want to keep as much of the oil as possible for future use in Norway.

Oil development so far has had few undesirable effects. No major pollution incidents have occurred. Investment in the oil and gas industry – which made up 13% of capital spending last year and will continue to rise rapidly – has created little pressure on credit facilities. Employment in the industry and in supporting jobs stands at only 30,000 people, 2% of the labor force. This number is not likely to increase much, because emphasis will soon shift from exploration to extraction, which is less labor-intensive. The needs of other sectors, particularly services, are more apt to strain labor supply as the oil boom stimulates the domestic economy. Inflation, while high by historic standards, so far has remained well below the OECD average.

Current Policies

Oslo's recent maneuvers in the tax field reflect political pressures and a shifting appraisal of what the market will bear. The government first proposed taxes that would have taken 90% of profits, then backed down in the face of oil company protests and enacted a package cutting the government take to 57%-66% at current prices. The initial proposal presumably was designed to placate the Norwegian electorate and make the final tax schedule more palatable to the companies. The revised tax arrangement has left Norwegian oil competitive internationally and has elicited a generally positive response from the companies.



Norway's Fjords:

Initial construction stages of offshore production platforms that will tower some 500 feet in completion.

The Norwegians are relying primarily on licensing to regulate the pace of petroleum development. Oslo has leased only 25% of the offshore shelf south of 62 degrees and has refused to grant exploration licenses until 1977 for the more promising area north of this latitude. It also is moving to take a more active role in every phase of the industry through Statoil, the state-owned company. Statoil has the option of buying a 51% interest in any field once production has begun and could use this right to restrict output. (Confidential No Foreign Dissem)

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OPEC COUNTRIES: TRENDS IN INVESTABLE SURPLUS

OPEC countries had an estimated investable surplus of $13 billion in the first quarter of 1975,* down several billion dollars from the third quarter peak of 1974. We expect a surplus for the full year of $41 billion, or $15 billion less than in 1974. Reduced demand for OPEC oil and the continuing rapid growth in OPEC imports are the main factors in the decline. (Total OPEC official assets will amount to more than $110 billion at yearend 1975.)

First Quarter Estimates

The value of OPEC oil exports fell to $25 billion in the first quarter of 1975, 13% below the quarterly average of last year. Because of the decline in world economic activity and in excess inventories held by the oil companies, export volume slipped to 25.2 million b/d, compared with 28.2 million b/d in the preceding quarter. The largest cuts occurred in Saudi Arabia (off 1.6 million b/d), Nigeria (0.4 million b/d), and the UAE (0.3 million b/d) In addition, the weighted average price of OPEC crudes dropped slightly as oil companies sought the lowest cost supplies. A moderate increase in non-oil exports brought total OPEC export earnings to an estimated $26.6 billion in the first quarter.

Preliminary data indicate that first quarter imports reached $12 billion. The increase from the previous quarter was small, because (a) import growth was unusually rapid in late 1974 and (b) price increases moderated. The fastest growing markets were Iran, Iraq, Algeria, and Nigeria.

* After deduction of grant-type assistance, which came to $1.4 billion. The term "investable surplus" is often used elsewhere to include grants.

The deficit for services and private transfers continued to shrink because investment income grew faster than such costs as freight, insurance, and pay repatriated by foreign workers. At the same time, grant-type outlays reached $1.4 billion, an unusually high quarterly figure, as a result of Saudi and Kuwaiti payment of $800 million into the "Rabat war chest."

We believe that the OPEC states had a current account surplus in the first quarter of $11 billion and an investable surplus of $13 billion. The difference reflects the lag between the decline in oil export volume and the decline in cash receipts for oil. The investable surplus would have been $1 billion higher if Iran had not allowed the oil consortium to delay its usual March payment until the second quarter.

OPEC Current Account

Billion US $

	1974	Projected 1975	Preliminary 1st Qtr 1975
Trade balance	83.5	54.6	14.6
Exports (f.o.b.)	119.5	108.5	26.6
Oil	113.5	101.4[1]	24.8
Non-oil	6.0	7.1	1.8
Imports[2] (f.o.b.)	36.0	54.0	12.0
Net services and private transfers	-9.1	-9.2	-2.0
Freight and insurance	-4.3	-6.5	-1.4
Investment income receipts	4.1	7.6	1.6
Other	-8.9	-10.3	-2.2
Grant-type assistance	-4.2	-4.0	-1.4
Current account balance	**70.2**	**41.4**	**11.2**
Adjustment for lags in oil receipts	-13.4	Negl.	1.8
Investable surplus	**56.8**	**41.4**	**13.0**

1. If oil prices are raised in the fourth quarter, the value of oil exports will go up, but payments for this oil will not increase significantly until the beginning of 1976.
2. Includes military.

Outlook for the Remainder of 1975

The OPEC current account surplus is expected to decline by $2 billion more in the second quarter, to $9 billion. Seasonally lower oil consumption and continuing drawdown of company inventories should reduce oil exports by at least

$1 billion. Meanwhile, imports are likely to increase by somewhat more than $1 billion, with the rise in investment income offsetting only a few hundred million dollars of the gain. Because of payments lags, OPEC countries should have a second quarter investable surplus of $11 billion.

In the second half, the current account surplus gradually will turn up. Oil sales will be stimulated as economic growth begins to recover in the developed countries, since oil inventories will have been trimmed. OPEC exports of oil probably will average 25.5 million b/d and revenues will amount to $101 billion if present prices continue through yearend. If prices are hiked at the start of the fourth quarter, revenues will rise $2.5 billion for each dollar-per-barrel increase. Actual cash receipts in 1975 would be little affected because of lags in oil receipts.

We estimate that OPEC imports in 1975 will reach $54 billion, a 50% increase compared with a 75% rise last year. The decline is attributable entirely to expectations of smaller price increases; the growth in volume probably will continue near the 1974 rate of 33%. The current account surplus for 1975 will hit about $41 billion, or $29 billion less than in 1974. The expected decline in actual receipts is only $15 billion because of lags in oil receipts. This decline is $10 billion greater than we estimated three months ago because the worldwide recession has proved more severe than expected and because OPEC imports have increased more than anticipated. (Secret)■

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EGYPT: PRECARIOUS FINANCIAL SITUATION

President Anwar Sadat, walking a financial/political tightrope, is trying to sustain present levels of foreign expenditure with short-term borrowing until additional Arab cash or Western aid is forthcoming.

Economic Headaches

Sadat needs at least $500 million in new aid to finance the prospective current account deficit and to repay long-term loans falling due in 1975. If aid is not forthcoming, a major adjustment is in prospect. Unable to cut back on debt repayment without jeopardizing its Western credit rating and its Soviet military

support, Cairo may be forced to slash imports to austere pre-war levels for the second half of the year.

Egypt's financial problems began last year when the import bill doubled in comparison with pre-war years, because of both increased prices and higher volume. Foreign exchange earnings and Arab aid financed imports until the fall of 1974. At that time, deepening depression in the West cut demand for cotton and other income-elastic exports, and the sums promised at the Rabat conference were sharply reduced.

In the last few months of 1974, Egypt faced a balance-of-payments gap of about $250 million, which was financed by short-term borrowing. Unwilling to enforce austerity on a populace whose living standards remained below mid-1960 levels, Cairo has continued to borrow throughout the first 5 months of 1975; short-term obligations due before the end of next month now exceed $1 billion.

We believe that the banking community is prepared to refinance short-term obligations that cannot be paid, but interest rates and other penalties are rising as Egypt's credit rating weakens. The Sadat government is postponing some repayments, hoping to obtain the new aid required (a) to discharge overdue short-term obligations fully and (b) to maintain present expenditure levels.

Political Concessions?

Since the 1973 war, Egypt's pivotal position in the Middle East and Sadat's influence with King Faysal have enabled the President to obtain sufficient foreign financing without making significant policy concessions to his creditors. He is relying heavily on the prospect that the Arab summit now scheduled for June will again provide substantial grant aid that is not tied to economic projects or to political goals.

If he fails to evoke a favorable response from the summit, Sadat may still be able to obtain additional cash from Saudi Arabia. The death of Faysal and the advent of new Saudi leadership have created considerable uncertainty, however, particularly as to the conditions that might be attached to balance-of-payments support. No assistance can be expected from the USSR, whose insistence on higher debt repayments may create a substantial net outflow of funds from Egypt. Accordingly, Sadat may have to depend heavily on the West and such new sources as Iran to supplement aid flows this year. (Secret No Foreign Dissem)■

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BRAZIL: EROSION OF FOREIGN RESERVES

Brazil lost nearly $800 million in foreign exchange in the first quarter of 1975, with reserves falling to $4.5 billion, compared with $6.4 billion at mid-1974. The government can only partly staunch the financial hemorrhage in the remainder of 1975, given the indifferent prospects for capital inflows and the difficulties of restraining imports.

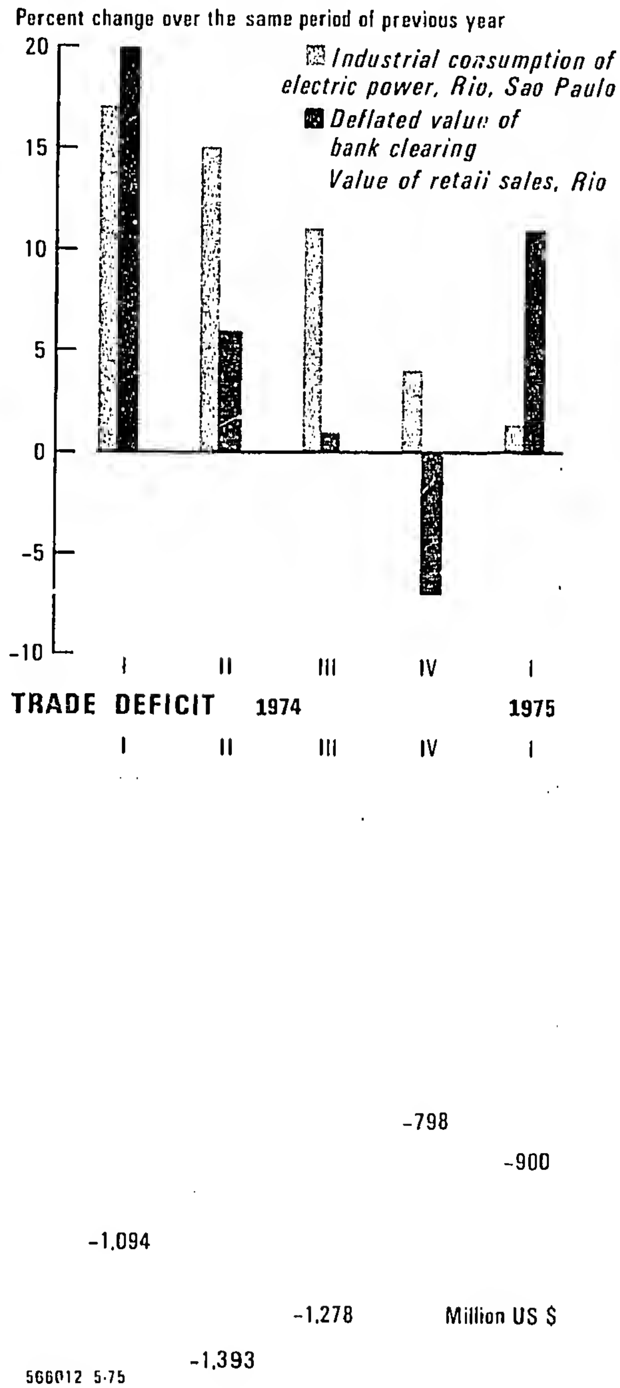
Antecedents in 1974

Last year's deficit in the basic balance of payments occurred after six years of steadily rising reserves. The current account deficit jumped from $1.7 billion in 1973 to $6.9 billion in 1974, almost one-fifth of the aggregate deficit registered by the non-OPEC LDCs. Deteriorating terms of trade played only a minor role in this development. Import prices, led by petroleum, rose 45%; export prices increased 35%, primarily because of the booming sugar market and soaring prices for Brazilian manufactures. While export volume failed to rise, import volume grew exceptionally fast. Capital inflows almost kept pace with the growth in the trade deficit in the first half of 1974 but faltered after mid-year.

Current Account in 1975

Brazil will have a large current account deficit in 1975 despite a substantial reduction in the trade deficit.

Brazil Economic Indicators . . . .



Brazil: Balance of Payments

Million US $

	1970	1971	1972	1973	1974
Trade balance, f.o.b.	232	-341	-244	7	-4,563
Exports	2,739	2,904	3,991	6,199	7,968
Imports	2,507	3,245	4,235	6,192	12,531
Net services	-815	-980	-1,250	-1,722	-2,313
Net transfer payments	21	14	5	27	....
Current account	**-562**	**-1,307**	**-1,489**	**-1,688**	**-6,876**
Medium and long-term capital	938	1,360	3,471	3,709	5,473
Basic balance	**376**	**53**	**1,982**	**2,021**	**-1,403**
Errors and omissions	-92	9	-436	-355	67
Change in net reserves	**468**	**44**	**2,418**	**2,376**	**-1,470**

Sharply reduced economic growth helped cut the trade deficit in the first quarter of 1975. Trade deficits for the rest of the year probably will be even smaller as (a) export volume turns up and (b) imports continue to be restrained by higher tariffs, administrative controls, restricted import credit, exchange rate devaluation, and falling raw material prices. Imports were held below $3.0 billion in the first quarter, in keeping with the government's goal of limiting imports to the $12.5 billion level of 1974. Because of falling prices for agricultural exports, total exports in 1975 probably will not exceed $9.5 billion, implying a trade deficit of $3 billion.

Meanwhile, higher net interest payments will raise the service account deficit. The rise in foreign debt of 35% in 1974 means larger interest payments, and the drop in foreign reserves will reduce interest receipts by at least 25%. Brazilian officials expect a $3 billion service deficit, compared with $2.3 billion in 1974. The total current account deficit thus will be close to $6 billion, an improvement of less than 15% on 1974.

Capital Account

Brazil would net about $4 billion in medium- and long-term capital this year, if first quarter results were a reliable indication. Direct investments would make up about $900 million, and the remainder would come from suppliers, foreign commercial banks, and multilateral institutions. Under these circumstances, Brazil would face a basic balance deficit close to $2 billion for 1975, compared with $1.4 billion in 1974.

Brazilian officials, however, report that new credits rose sharply in April, equaling the average monthly rate of 1974. If this rate were sustained, the deficit would be cut sharply and reserve losses curtailed. A recent decision to allow foreigners to enter the Brazilian stock market may also attract additional foreign capital.

Brazil probably would be willing to use its foreign reserves to finance a deficit of $1.0 to $1.5 billion in its basic balance. If the deficit were to exceed this level, the monetary authorities could use additional short-term lines of commercial credit and, reluctantly, draw on the $550 million available to Brazil from the IMF's oil facility. (Secret)■

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Notes

US Trade with the USSR: Exports Up, Imports Down

First quarter statistics for US-Soviet trade just released by the Department of Commerce show US exports in 1975 up by more than $100 million over first quarter 1974, to a level of $276 million. Exports were led by grain ($149 million), trailed by machinery and equipment ($74 million). For 1975 as a whole, exports probably will be substantially higher than the $612 million in 1974, with machinery and equipment the major category. The $20 million decline in imports to $78 million reflected a drop in imports of platinum group metals. A sharp increase in US purchases of Soviet oil, for example, could easily reverse this downward trend in imports. (Unclassified)

Soviet Cars Tested for US Markets

The USSR plans to market its Fiat passenger cars in the United States as soon as the vehicles can meet US safety and emission standards. Ten Fiats, called Lada in export trade, presently are undergoing safety and pollution tests in the United States. If the precedent being set in Western Europe holds, the Soviet cars will go on sale in the United States at prices well below those of the Italian-made Fiats. (For Official Use Only)

Americans Brighten the Canton Fair

American attendance at China's 1975 Spring Canton Trade Fair was the highest ever – 440 businessmen representing 275 US firms. The Chinese moved to accommodate US buyers by reducing prices on textiles, offering to upgrade quality and packaging, guaranteeing immediate delivery on clothing, and denominating contracts for some commodities in US dollars. US purchases (primarily nonferrous metals, textiles, and foodstuffs) approached the $40 million record established last fall. Since only about half of US purchases are normally concluded at the two fairs, US imports from China should reach $150 million this year. Although US participation was a bright spot, overall attendance and the volume of business were below the 1974 Fall Fair – the lowest in years. (Confidential)

Indonesia: Aid Consortium Maintains Commitments

Indonesian fears that increased oil earnings and membership in OPEC would cause foreign aid flows to dwindle have proved to be unfounded. At their recent meeting, the Inter-Governmental Group on Indonesia made new aid commitments of $900 million, about the same as last year. The IBRD and Asian Development Bank together have agreed to double their lending to about $500 million. Of the $400 million in bilateral aid, Japan pledged $140 million and the US $60 million. Loans – about 90% of total commitments – will entail somewhat harder terms than in 1974. (For Official Use Only)

Bangladesh Devalues

Bangladesh devalued its currency 36.8% on 17 May, equating 30 Taka to £1 sterling. It now expects international agencies and Western donors to provide additional aid to ease the inflationary impact of a measure they had so strongly recommended. The devaluation (a) permits a reduction in the export price of raw jute goods, which have been giving way to synthetics; and (b) probably will enable the government to reduce its subsidy to the jute industry. The money saved on jute subsidy payments can be used to help maintain the present low prices of imported goods distributed through the ration system and fund new development projects. At the same time, the devaluation is not likely to induce a decline in import volume. (For Official Use Only)

Decline in Edible Oil Prices

Worldwide increases in exportable supplies of edible oils, at a time of depressed business conditions, have led to sharp price declines from the high levels of early October 1974. Unless the international economic tempo should unexpectedly speed up or prospects for the US soybean crop turn poor, the large supplies will mean further downward pressure on prices for the rest of the year.

	US $ per Ton		
	3 Oct 1974	7 May 1975	Percent Change
US soybeans (Decatur, Ill.)	1,093	513	-53
Coconut oil (Rotterdam)	935	384	-59
Peanut oil (c.i.f. United Kingdom)	1,136	759	-33
Sunflower seed oil (Rotterdam)	1,220	670	-45
Peruvian fish oil (c.i.f. Northwestern Europe)	590	290	-51
Palm oil (c.i.f. Northwestern Europe)	812	399	-51

(For Official Use Only)

Copper Producers: Out of Step

Zaire, one of the four members of the Intergovernmental Council of Copper Exporting Countries, has not fully accepted the Council's agreed 15% cutback in production, scheduled to take effect on 15 April. Instead, Zaire is reported to be stockpiling 15% of its production. Zambia also has not yet complied with the cutback. Peru and Chile are supporting the cutback publicly but probably have not fully implemented it. Since world copper stocks remain unusually large, little increase in prices is likely until an economic upturn in major industrial countries occurs. (Confidential)

Poland Borrows To Develop Copper Resources

Poland has received a $240 million Eurodollar loan from a consortium of Western banks led by Chase Manhattan Bank, Ltd., of London for the development of copper deposits in the Lubin-Glogow basin. The seven-year loan is the largest ever raised by an East European country on the Eurocurrency markets. Terms

call for a spread of 1-1/2 points above the London interbank rate for Eurodollars -- the highest spread yet accepted by an East European country. In addition, Poland received a $20 million Export-Import Bank credit in February 1974 to support the purchase of $55 million worth of copper processing equipment from the Waterbury Farrel Division of Textron Corp.; and in October 1974 a $100 million loan for copper resource development was extended by a consortium of US and Canadian banks. (Confidential)

Publication of Interest*

The World Fertilizer Market: A Short-Run View
(ER IR 75-15, May 1975, Confidential)

This report analyzes developments in the world fertilizer market in 1973/74 and assesses the world outlook for fertilizer supply, demand, and prices through 1975/76.

* Copies of this publication may be ordered by calling [redacted] Code 143, Extension 7234. 25X1A

ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

May 28, 1975

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Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [redacted] of the Office of Economic Research, Code 143, Extension 7402 or 351-7402. 25X1A

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